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C O N F I D E N T I A L SECTION 01 OF 02 AMMAN 002520

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SUBJECT: DEPUTIES EASILY APPROVE SALES TAX INCREASE OVER
VOCAL OPPOSITION

REF: A. AMMAN 01452

[1](#)B. AMMAN 00652

Classified By: Ambassador Edward W. Gnehm for Reasons 1.5 (b), (d)

SUMMARY

[1](#)1. (C) MPs on March 28 endorsed a three percent increase in the general sales tax as part of the GOJ's budgetary price and tax hike package. Apart from a few independent MPs and the members of the Islamic Action Front, a large majority of the 95 deputies present voted in favor of the legislation. Prime Minister al-Fayez had decreased the initial proposed sales tax hike from four to three percent to placate opposition, and agreed to salary increases for public sector workers. Opponents of the sales tax hike argued that the government needed to tackle corruption and unnecessary spending before asking Jordanians to pay more out of their pockets. The measure demonstrates the GOJ's commitment to fiscal restraint as the country's debt position worsens due to the recent depreciation of the (dollar linked) Jordanian dinar. End Summary.

SALES TAX INCREASE GETS A GREEN LIGHT

[1](#)2. (U) The Lower House of Parliament approved March 28 an increase in the general sales tax from 13 to 16 percent. The tax hike was an integral part of the GOJ's 2004 budget, which the Parliament passed -- after considerable controversy -- in February (ref a). Ninety-four MPs (out of 110) were present for the tax increase vote and all voiced their approval except for MPs from the Islamic Action Front (IAF) and a few independent deputies. The GOJ estimates that the sales tax measure will pump an additional 70 million Jordanian dinars (around \$98 million USD) into state coffers.

[1](#)3. (U) A combined tax and price hike package originally proposed by the government (see refs a and b) included a four to six percent increase in the general sales tax on a list of 91 goods, in addition to special levies on tobacco, alcohol and mobile telephone bills. After a stronger than expected outcry against the proposals, Prime Minister Faisal al-Fayez lowered the sales tax hike from four to three percent and also scrapped plans to impose extra taxes on basic commodities including medicine, food and educational materials.

[1](#)4. (U) To help ameliorate the impact of the tax hike, as well as fuel price increases (see ref b), the GOJ also approved monthly salary increases for public sector employees, as well as members of the Jordanian military. A raise of 10 Jordanian dinars (roughly \$14 USD) will be given to employees with monthly incomes below 200 Jordanian dinars, and 5 Jordanian dinars (approximately \$7 USD) to those with monthly salaries between 200 and 300 Jordanian dinars.

OPPONENTS & SUPPORTERS SPEAK OUT

[1](#)5. (SBU) IAF members in the Lower House spoke out strongly against the tax hike. IAF MP Zuhair Abul Ragheb (East Banker, Amman-3rd District) deemed the public salary increases insufficient, saying, "Increasing the sales tax will put an extra burden on some 47 percent of citizens who will not benefit from the salary increases proposed by the government to offset these hikes." Reflecting the views of other opponents, Islamist independent MP Abdullah al-Akayleh (East Banker, Tafilah) told PolOff that lower income Jordanians were already being squeezed dry and that he would not consider tax increases until the GOJ first took action against corruption and unnecessary spending (including on large infrastructure projects) that were allegedly "draining public funds." MP Abul Rahim Malhas (East Banker, Amman-3rd District) similarly related to PolOff his view that the GOJ should not ask Jordanians to pay more taxes when it has yet to seriously tackle wasteful public spending.

16. (U) Responding to IAF criticism, Lower House Speaker Abdul Hadi Majali (East Banker, Karak-2nd District) stressed the right of the IAF and others to express their opinions. However, he adamantly rejected "the implied suggestion that a majority of deputies who voted for the law were working against the interests of the country." Perhaps to counter allegations that it was insensitive to the plight of the poor, Finance Minister Mohammad Abu Hammour publicly pointed out that the additional tax revenue will help finance a directive by King Abdullah to include children below the age of six in an expanded free health insurance program. PM al-Fayez told MPs that the government would also increase funds for the National Aid Fund (NAF) so that it could provide financial assistance to 80,000 needy Jordanian families.

COMMENT

17. (C) Lower House approval of the tax hike law was already a done deal after strong government lobbying efforts resulted in a large margin of parliamentary support for its 2004 budget (see ref a). The budget the government fought for meets IMF deficit targets for the year, key to private-sector led growth. Small public salary increases, as well as proposed increases in social assistance spending, may help soften the public reaction to implementation of higher taxes and fuel prices, but without significantly compromising the GOJ's commitment to fiscal discipline.

18. (C) The policy of belt tightening and fiscal restraint is especially important given Jordan's worsening debt position. The GOJ has managed its debt well, paying off its higher-interest Brady bond debt at the end of 2003. However, Jordan's dinar is linked to the dollar, while most of its debt is denominated in euros or yen. The dollar's weakness has resulted in an increased Jordanian debt stock to GDP ratio. The proposed fuel oil price increases, which are expected to be implemented soon, will help wean the Jordanian economy off its reliance on external oil support.

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GNEHM